

THE SECRETARY OF DEFENSE
WASHINGTON

March 18, 1965

Honorable William L. Dawson
Chairman, Committee on
Government Operations
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Reference is made to your request for the views of the Department of Defense on H.R. 4845, 89th Congress, a bill "To provide for the economic and efficient purchase, lease, maintenance, operation, and utilization of automatic data processing equipment by Federal departments and agencies."

The Department of Defense concurs in the desirability of setting forth in legislation an expression of policy by the Congress on the acquisition and use of automatic data processing equipment by Federal agencies. Such an expression of policy by the Congress would be of assistance to the Bureau of the Budget and the General Services Administration in coordinating the management of ADPE throughout the Government.

As you know, the Bureau of the Budget and the General Services Administration have already initiated actions which should materially improve the management of ADPE. A Government-wide reutilization program has been initiated within the last year which has been implemented throughout the Department of Defense. Under guidance provided by the Bureau of the Budget, ADPE sharing exchanges are being established by the General Services Administration and these actions are being fully supported by the Department of Defense. Recently, the Bureau of the Budget issued Circular A-71 which is designed to further improve the management of ADPE within the Government and which specifically identifies the responsibilities of all agencies in this regard. This Circular is intended to implement recommendations contained in the Bureau of the Budget Report to the President on the Management of Automatic Data Processing in the Federal Government which the President approved and transmitted to the Congress on March 2, 1965.

The Bureau of the Budget Report expressed certain conclusions on the matter of procurement and use of automatic data processing equipment.

On file OSD release instructions apply.

It recommended that Government agencies retain their present responsibilities for making decisions in this area, rather than have a separate central office empowered with authority to make these decisions. The latter course, the report concluded, would dilute the responsibility of agency heads for the management of their organizations and automated systems; and would serve to divorce ADP management from the arrangements established by Bureau of the Budget Circular A-71 with respect to Presidential surveillance over the overall management of the Executive Branch. It would also interfere with direct Government agency-contractor relationships.

With respect to the establishment of a centralized revolving fund for the acquisition and utilization of ADPE, the Bureau of the Budget Report, as approved by the President, limited its recommendations on the use of such a fund to those situations involving the establishment of service centers, equipment pools and time-sharing arrangements or where it would be advantageous for appropriate Federal agencies on a permissive basis to finance the acquisition and utilization of ADPE.

There is contained in H.R. 4845 certain language which might be construed to require, on a mandatory basis, Federal agencies and their contractors to obtain their individual ADPE requirements through the Administrator of General Services. The Administrator would purchase, lease, or transfer from other Federal agencies the equipment to meet these requirements. Exceptions would be permitted only at the discretion of the Administrator. Regardless of which agency procured the equipment, the bill could be interpreted to require the use of the centralized revolving fund provided for in subsection 111(c) in all cases.

Use of such a fund on a mandatory basis would result in imposing another step in the procurement of ADPE. Moreover, there would be extra costs to Federal agencies resulting from surcharges necessary to reimburse the General Services Administration for costs of operating the fund. In addition, it could discourage second and third users of the equipment since they would be paying rentals to General Services Administration for older and perhaps less efficient equipment that might be as high or higher than what they would pay for the most modern equipment. Under existing procedures for the utilization of equipment excess to one agency by another agency, there is a clear financial incentive to utilize such equipment. If it is government-owned, it can generally be acquired at no cost except

for transportation, packing, and dismantling charges. If the equipment will do the job, the economic advantage over new equipment is obvious. Even with leased equipment, the agency can usually obtain it at a substantial discount from the new price. Since the General Services Administration could charge rentals as long as the equipment is in use (and would have to until it is amortized), the incentive to use older, perhaps outmoded, equipment is lost. The General Services Administration may then find itself eventually in the position of having a large inventory of unused equipments in warehouses or directing agencies to use this equipment even though newer, more efficient equipment is available at equal or lower cost. For the above reasons, the Department of Defense does not consider the establishment of a revolving fund for acquisition of all ADPE as desirable.

The views of this Department with respect to ADPE in the hands of Government contractors have been made known to the Bureau of the Budget, the General Accounting Office and to various Committees of Congress. The General Accounting Office has issued a series of reports on this matter, favoring Government ownership for ADPE in Government contractor plants. Detailed comment to the Comptroller General on his recommendations in this area were supplied to him on May 21, 1964, a copy of which is attached.

Department of Defense procurement policy is to place maximum responsibility on contractors for contract performance, including the responsibility for facilities acquisition to perform those contracts. This would include ADPE. The Department's policies of contractor responsibility go hand-in-hand with increased emphasis on the use of fixed-price contracts and contracts with wide-ranging incentives which are designed to insure the utmost in sound contract management by Government contractors. Acceptance of a principle which would provide all ADPE to contractors as Government-furnished equipment carries with it substantial penalty because: (1) it represents increased Government control and intervention in private enterprise and management initiative; (2) it poses the extreme likelihood of the creation of a substantial inventory of idle ADPE; (3) the administration and caretaking of such an equipment inventory will be extremely costly; and (4) it overlooks the alternative that the contractor can purchase ADPE in many cases with better advantages to the Government.

It has been stated that a principal advantage of centralized procurement of ADPE is that lease/purchase decisions could be made on the basis of the total Government requirement for the equipment over its useful life-span rather than on the basis of estimated use by the acquiring organization. The Department of Defense position, based upon extensive experience with this type of equipment, is that it is practically impossible for a single agency to determine potential secondary users within the agency at the time of initial acquisition and that it is completely unrealistic to assume that any agency can make such determinations for the Government as a whole. We are in full support of the objectives of purchasing computers on the basis of proven economic advantage over leasing for the known application of the equipment. Lease/purchase analysis is made when the equipment is acquired and continually thereafter if the equipment is leased to assure that changed situations have not altered the original decision. The Department now purchases in all cases where the economic advantage is proven, based upon the known use of the equipment and if the funds are available. The equipment is then assured of full amortization by the initial requiring agency and, as previously mentioned, reutilization of the equipment by a secondary user is helped by an ability to transfer the equipment at no cost. This procedure allows selective purchase of equipment where economy is assured and facilitates its reutilization, but at the same time prevents a costly build-up of owned equipment which may or may not have further use to the Government.

In view of the foregoing, it is recommended that in line 8, page 1 of the bill, the words "and provide for" be deleted; in line 4, page 2, the word "shall" be changed to "may"; in line 7, page 2, the words "and directed" be deleted; in line 12, page 2, the word "require" be changed to "provide for"; and in lines 13, 14 and 15, page 3, the words "for the efficient coordination, operation, utilization of such equipment by and for Federal agencies" be deleted and substitute in lieu thereof the words "to establish and operate equipment pools and data processing centers by or for the use of two or more Federal agencies or to finance at the request of a Federal agency the acquisition and utilization of such equipment."

The Chairman of the Subcommittee on Government activities in his statement on the floor of the House of Representatives on February 11, 1965 (page 2586, Congressional Record) at the time H.R. 4845 was introduced, stated that the bill contained exceptions necessary for reasons of security and defense and that it was not intended that the legislation cover any specialized scientific or specially designed military ADP system components.

Virtually all specially designed ADPE developed for military purposes such as weapons fire control, tactical military field operations, scientific and engineering, missile and satellite tracking, weapons development, command and control, and communications operations are procured as integral parts of weapons and support systems. It should be further noted that commercial general purpose equipment is selected for these systems when it can perform satisfactorily. Selection of specific equipment, however, must always be related to the total system and its interface requirements. The Department of Defense also makes extensive use of ADPE for intelligence and other highly classified purposes. Information essential to the selection and acquisition of this equipment is highly classified and its dissemination restricted accordingly. Certain agencies of the Department of Defense make extensive use of ADPE in accomplishing urgent cryptologic missions. Design or selection, production, testing, and updating of ADP equipment and the urgency and sensitive classified nature of the data to which the ADP applications are made require that the most rigid security measures and time schedules be applied. It is considered essential that determinations with respect to ADPE of the types described above involving the national defense and national security be made by the Secretary of Defense. Accordingly, the following additional amendment is recommended for incorporation in the bill commencing on page 2, line 16.

"This section shall not be construed to apply to specially designed automatic data processing equipment for scientific, military or cryptologic uses and the head of a federal agency is authorized to determine when any automatic data processing equipment should be excluded from the provisions of this section for reasons of national defense or national security."

In conclusion, the Department of Defense supports the enactment of H.R. 4845 if it is amended to include the suggestions set forth above. It concurs in those provisions of H.R. 4845 pertaining to responsibilities to be vested in the Secretary of Commerce. The Department of Defense is engaged in extensive scientific research and development activities in the ADPE field primarily with respect to our military requirements. However, it believes that there is a definite requirement on a Government-wide basis for the type of services which the Secretary of Commerce would provide under this bill. It is understood that the authority vested in the Secretary of Commerce by subsection 111(f) is not intended to curtail or restrict Department of Defense research and development activities in this field.

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We will be happy to provide any further information that your Committee may request. Further, the Department welcomes the opportunity to testify at hearings to be held on H.R. 4845.

The Bureau of the Budget advises that from the standpoint of the Administration's program, there is no objection to the submission of this report to the Committee.

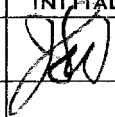

Sincerely,

Signed

CYRUS R. VANCE
Deputy Secretary of Defense

Inclosure

Ltr to CompGen dtd 21 May 1964

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